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No. 05-1056

IN THE

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

AT&T CORP.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

REPLY BRIEF FOR PETITIONER

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RULE 29.6 STATEMENT

The corporate disclosure statement included in the petition for a writ of certiorari remains accurate.

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REPLY BRIEF FOR PETITIONER

Nowhere in its brief in opposition does respondent dispute that the decision below "extended" the substantive reach of Section 271(f). *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 434 F.3d 1357, 1358 (Fed. Cir. 2006) (Lourie, J., dissenting from denial of reh'g en banc). Far from it, respondent applauds and embraces this extension, which the Federal Circuit deemed necessary to ensure that U.S. patent protections "remain effective" in the digital age. *Id.*; Pet. App. 10a. That holding and its underlying rationale conflict intractably with two central aspects of this Court's patent jurisprudence.

First, by extending the ambit of Section 271(f) to sweep in foreign-replicated software, the Federal Circuit necessarily expanded the extraterritorial reach of U.S. patent law. In doing so, the Federal Circuit disregarded both the well-settled rule that the patent laws are "not intended to[] operate beyond the limits of the United States," *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1857), and its obligation—incumbent on all courts construing federal statutes—to adopt *any* statutory construction that reasonably avoids extraterritorial application, *see F. Hoffmann-La Roche Ltd. v. Empagran, S.A.*, 542 U.S. 155, 174 (2004). Second, as this Court recognized in *Parker v. Flook*, 437 U.S. 584 (1978), it is the domain of Congress—and emphatically not the role of the courts—to ensure that our patent laws "remain effective." *Id.* at 595-96. Tellingly, the brief in opposition does not even cite—let alone, distinguish—*Brown*, *Empagran*, or *Parker*. The manifest conflict with the decisions of this Court is itself a sufficient basis for certiorari.

As amply demonstrated by the *amicus curiae* brief of the Software & Information Industry Association ("SIIA"), the questions presented have grave significance for U.S. high-technology companies. It is not a sufficient response for respondent simply to dismiss these concerns as "doomsday" "alarmism." Opp. 25. One need look no further than the *Eo-*

las case—a half-billion dollar verdict, $330 million of which was premised upon Section 271(f)(1)—to see the impact of the Federal Circuit's unwarranted extension of that statute. *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir.), *cert. denied*, 126 S. Ct. 568 (2005).

The brief in opposition itself demonstrates that the questions presented, though recent, are recurring. Opp. 8-9 (citing cases); *see also* SIIA Br. 2 (describing the "increasingly common" "case of the 'golden master'"). Respondent's arguments against review are insubstantial. Certiorari is therefore warranted and, indeed, urgently needed.

A. The Importance Of The Questions Presented Cannot Be Overstated.

As detailed in the petition (at 22-29), the questions presented are exceptionally important for two related reasons:

First, by expanding the extraterritorial application of U.S. patent law, the decision below portends to reduce significantly the need for inventors to obtain patents outside the United States. The decision below thus threatens to disrupt the patent systems of foreign nations and create substantial international discord. *See Brown*, 60 U.S. (19 How.) at 197. *Second*, the Federal Circuit's recent extension of Section 271(f) imposes crushing liability on U.S. software and high-technology firms for foreign conduct that, until recently, was understood widely and justifiably not to implicate U.S. patent law. *Compare Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113, 1118 (Fed. Cir. 2004) (holding that Section 271(f) did not reach circuit chips manufactured overseas based on U.S.-supplied instructions), *with Eolas Techs. Inc.*, 399 F.3d 1325 (awarding more than $330 million in damages based upon foreign-duplicated software). Respondent is quick to dismiss both concerns, but its arguments cannot withstand scrutiny.

1. Notwithstanding the undisputed fact that Section 271(f) liability in this case was predicated upon *foreign*-replicated software that was installed in *foreign*-assembled computers for sale to *foreign* consumers, respondent con-

tends that the decision below did not involve an extraterritorial application of the U.S. patent laws. Opp. 20-22. Respondent argues that the Federal Circuit instead reached only Microsoft's activities as a "domestic supplier[]." Opp. 21. But this argument can be accepted only if one first accepts respondent's merits contention that copying a component overseas is the same, for statutory purposes, as supplying that component from the United States. As detailed *infra* (at 8-10), sound principles of statutory interpretation and common sense dictate the opposite conclusion.

2. Respondent cannot deny the fact that the Federal Circuit's extension of Section 271(f) threatens to impose massive liability on U.S. software companies. (Respondent is, after all, among the group of patent holders aggressively seeking its imposition.) Respondent instead argues that such liability will have no perceptible effect on U.S. software and high-tech firms. Opp. 25. But even the district court recognized that its extension of Section 271(f) would have "profound ramifications" for U.S. software companies. Pet. App. 24a. The notion that half-billion dollar verdicts like that in *Eolas* will have no effect on the business practices of potential defendants is fanciful, and the *amicus curiae* brief filed by the SIIA—a trade association comprised of some of the country's largest software manufacturers, including Novell, Oracle, and Sun Microsystems—strongly refutes respondent's self-serving intuition. *See* SIIA Br. 16 (the "daunting threat" of "unwarranted international liability" "creates disincentives for future investment in America's high-tech industries"). As Justice Scalia recently acknowledged, such "enormous potential liability, which turns on a question of federal statutory interpretation, is a strong factor in deciding whether to grant certiorari." *Fid. Fed. Bank & Trust v. Kehoe*, No. 05-919, 547 U.S. _ (slip op. at 1-2) (U.S. Mar. 27, 2006) (Scalia, J., concurring in the denial of certiorari).

Respondent's more fundamental argument—that any such crippling liability could be avoided if companies like Microsoft did not "expropriate and export another's patented innovations" (Opp. 26)—only illustrates the depth of respon-

dent's disregard for the territorial limitations of U.S. patent law. U.S. patents are not supranational monopolies that transcend established notions of sovereignty and international comity. A U.S. firm thus does not "expropriate" a patented invention when it practices that invention outside the territorial jurisdiction of the United States. If an inventor wishes to prevent such "expropriat[ion]" in foreign nations, it must "seek [protection] abroad through patents secured in countries where [its] goods are being used" (*Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972))—a measure that respondent here never bothered to undertake.

3. Attempting to obscure the importance of the questions presented, respondent begins its brief in opposition by noting that this Court declined to review the same questions in *Eolas*. 126 S. Ct. 568 (2005). As noted in the petition (at 29), however, that case came to this Court in an interlocutory posture, and therefore was not a strong candidate for review. This case, in contrast, is final in all respects and thus does not share *Eolas*'s obvious vehicular flaw.

Moreover, respondent's reliance on the absence of a circuit split is passing strange. Opp. 8. As respondent itself notes, the Federal Circuit has national jurisdiction over patent appeals. *Id.* Because that fact gives the decision below national application, it *enhances* rather than detracts from the importance of the questions presented.[1]

B. This Case Is An Ideal Vehicle For Review Of Those Questions.

Desperate to contrive a vehicle problem in Microsoft's case for review, respondent contends that Section 271(f)(2) is an alternative basis for the decision below and Microsoft has

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[1] And similarly, respondent's effort to reconcile the decision below with past Federal Circuit decisions is authoritatively debunked by Judge Lourie's candid acknowledgment that recent circuit decisions—including his majority opinion in the decision below—have "extended" Section 271(f). *Union Carbide Chems. & Plastics Tech. Corp.*, 434 F.3d at 1358 (Lourie, J., dissenting from denial of reh'g en banc).

not sought review of that supposed alternative holding. Opp. 23-25. This argument has no basis in fact or law.

Respondent has *never* once—not in its complaint, not in its briefs below, not even in its opposition to Microsoft's motion for extension of time within which to file a petition for certiorari—suggested that Microsoft was liable under Section 271(f)(2). Nor did the courts below, and with good reason. That provision is obviously inapplicable to the facts of this case. Section 271(f)(2) requires that the "component" "supplied" from the United States be "especially made or especially adapted for use" in the patented invention. 35 U.S.C. § 271(f)(2). Under this Court's decisions, only a component that is specifically designed to fit an invention's parameters (and thus lacks any substantial noninfringing use) is "especially made." *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 n.7 (1964) (holding that fabric replacements for patented Ford convertible tops were "especially made" for an infringing purpose where they were "specially designed for the Ford convertibles [and] would not . . . fit the top-structures of any other cars"). The notion that Microsoft Windows—which has literally hundreds of uses beyond speech processing—was "especially made or especially adapted for use" in respondent's speech codec invention fails even the straight-face test. *See Hodosh v. Block Drug Co.*, 833 F.2d 1575, 1578 (Fed. Cir. 1987) (explaining that the substantial noninfringing use inquiry focuses on all of a device's functions, not just on the one capable of infringing the patent at issue). Not surprisingly, then, respondent did not allege, the district court did not find, and Microsoft did not stipulate that Windows was "especially made" for use in respondent's patented invention. In the absence of such a finding, there could be no liability under Section 271(f)(2).[2]

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[2] Respondent's assertion is yet further belied by its reliance on the *Eolas* decision. Respondent is at pains to demonstrate that "the operative facts and legal conclusions relating to section 271(f) are *identical* in both decisions." Opp. 8. *Eolas*, however, was decided exclusively under Section 271(f)(1). *See* 399 F.3d at 1341.

Moreover, even if respondent had pressed a Section 271(f)(2) claim below—and it most certainly did not—the statutory terms at issue in this case—"component" and "supplied"—are found in both Section 271(f)(1) and Section 271(f)(2). Any authoritative construction of those terms as used in Section 271(f)(1) would apply perforce to Section 271(f)(2). *See Mertens v. Hewitt Assocs.*, 508 U.S. 248, 260 (1993) ("language used in one portion of a statute should be deemed to have the same meaning as the same language used elsewhere in the statute") (citations omitted). Reversal (or affirmance) of the Federal Circuit's construction of Section 271(f)(1) thus would necessarily upset (or affirm) any purported alternative holding under Section 271(f)(2). The interpretation of the critical terms in Section 271(f)(2) is thus fairly included within the questions presented concerning the proper construction of the identical terms in Section 271(f)(1). *See United States v. Zolin*, 491 U.S. 554, 564 n.8 (1989) (a question is "fairly included" where the "answer to the question would follow inexorably from [the Court's] discussion" of other issues).

C. Respondent's Defense Of The Merits Of The Decision Below Is Unpersuasive.

Respondent devotes the bulk of its opposition brief to defending the merits of the Federal Circuit's decision—a consideration, at most, only tangentially relevant to the exercise of this Court's certiorari jurisdiction. Respondent's expansive reading of Section 271(f), however, cannot be reconciled with the statute's plain meaning or legislative history, or with fundamental canons of statutory construction.

1. Respondent argues that because software code is an essential element of a programmed computer invention, it "logically follows" that software code "must be a component of that patented invention." Opp. 13. Even if the ordinary meaning of the term "component" could sweep in intangible aspects of physical products—and it cannot, *see* Pet. 15-16—respondent *never* confronts Microsoft's argument that the term "component," as it is used in Section 271(f), is limited

to an invention's physical parts because only physical parts may be "combined," *i.e.*, assembled (Opp. 16, 19), to form a patented invention.[3] As noted in the petition (at 16-17), both the circumstances leading to Section 271(f)'s enactment and use of the term "component" in Section 271's other subsections strongly suggest that the term is limited to an invention's *physical* parts. The syntactical awkwardness of respondent's contention that Microsoft "use[s] the [software] disks to assemble infringing computers," Opp. 19, powerfully illustrates the weakness of respondent's contrary position. One does not *assemble* software code and hardware to build a computer.[4]

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[3] To the extent that respondent argues that software code is not "intangible and unpatentable," Opp. 12, it makes the same fundamental mistake as the Federal Circuit, confusing *intangible* software code with the *tangible* media on which the code is inscribed. The cases relied upon by respondent demonstrate only that *physical* items, such as computers, can be patented when they are altered by software code in a manner that is new and useful. *See, e.g., In re Alappat*, 33 F.3d 1526, 1545 (Fed. Cir. 1994) (en banc). By itself, *i.e.*, divorced from any tangible medium, software code is not patentable. *See* 35 U.S.C. § 101; Pet. 4-5. This distinction between software code and its storage media is reinforced by *Microsoft Corp. v. Commissioner*, 311 F.3d 1178 (9th Cir. 2002), a decision that respondent mistakenly relies upon for support. *See id.* at 1187-88 (holding that software disks are "export property" within the meaning of 26 U.S.C. § 927(a)(2)(B) because "diskettes . . . can embody software code," and "are similar to films, tapes, and records, because [they] all are media on which machine-readable copyrighted material can be stored").

[4] Respondent's assertion that Microsoft admitted in the district court that software is a "component[] of a patented invention" is profoundly flawed. Judicial admissions apply only to matters of fact, not to questions of law, and Microsoft therefore could not possibly be bound by its extemporaneous statement regarding the proper legal interpretation of Section 271(f). *See, e.g., MacDonald v. Gen. Motors Corp.*, 110 F.3d 337, 341 (6th Cir. 1997). Moreover, Microsoft's equivocal acknowledgment that, under certain conditions, there "*could be* 271(f) liability" if the master disks sent overseas were themselves installed on computers (Pet. App. 36a (citing Tr. at 16)) does not constitute the type of deliberate, clear, and unambiguous statement that is a prerequisite to the finding of a judicial admission. *See Oscanyan v. Arms Co.*, 103 U.S. 261, 263 (1880).

Respondent seeks to limit the consequences of the Federal Circuit's expansive definition of "component," arguing that its construction does not sweep in all "'intangible information' or 'design information,'" but rather encompasses only those intangible "instructions" that are "functional parts" of a finished invention. Opp. 16. Thus, respondent contends, while the export of software code (and presumably, the pattern of perforations in a player piano music roll, and the genetic sequence of a cell line—examples that respondent makes no effort to distinguish) could trigger Section 271(f) liability, the export of semiconductor circuit designs, tire tread designs, or other design information would not give rise to Section 271(f) liability. Respondent's dichotomy of functional instructions and design information, however, is false. As noted in the petition (at 21), the designs of tire treads and semiconductors *are* functional inasmuch as they give a tire or a semiconductor *all* of its new and useful functionality. If respondent is prepared to concede that a tire's tread design is not a component of a tire, then it should likewise admit that software code is not a component—a "functional part[]"—of a patented programmed computer. Just as a tire's tread design arranges rubber in a certain pattern to achieve a certain functionality, software code arranges a computer's circuits in a particular pattern to achieve a certain functionality; there is no meaningful distinction to be drawn between the two. And even if such a distinction could be maintained, the decision to extend Section 271(f) to embrace the export of "functional" "instructions" was Congress's—and surely not the Federal Circuit's—to make. *See Parker*, 437 U.S. at 595-96.

2. Respondent's defense of the Federal Circuit's construction of "supplie[d] . . . from the United States" is even less persuasive. Respondent acknowledges that "replication of the accused Windows software occurs overseas," *i.e.*, that the software code actually installed on foreign computers is manufactured abroad—not in the United States. Opp. 17. Respondent nevertheless argues that "[w]hen it comes to the ordinary meaning of supplying software, this includes providing . . . the software for installation on a computer" (Opp.

17)—in other words, "copying is subsumed in the act of supplying." Pet. App. 7a. But respondent suggests no reason why software code should be treated differently than physical "components." If, for example, a U.S.-supplied microprocessor were reverse-engineered and replicated overseas, the resulting foreign-made copies would not be "supplie[d] . . . from the United States"—even if what made the microprocessor "new and useful" lacked a "foreign origin." Opp. 18. Respondent's argument thus distills to an assertion that software code is *sui generis* because its intangibility makes it easy and inexpensive to copy. But such disparate treatment of software code violates the United States' international obligation to "accord[] the same treatment to all forms of invention." *Eolas*, 399 F.3d at 1339.[5]

Respondent further argues that limiting the phrase "supplie[d] . . . from the United States" to components actually shipped from the United States would have the effect of treating "golden masters sent to foreign OEMs *differently* from domestic golden masters." Opp. 19. But the difference in treatment of which respondent complains is the difference between extraterritorial and domestic application of the patent laws and is required by the plain text of Section 271(f). Section 271(b) makes one liable for any act that "induces infringement of a patent," 35 U.S.C. § 271(b), *i.e.*, any act that induces one "within the United States" to "make[] . . . any patented invention." *Id.* § 271(a). By contrast, Section 271(f)(1), which applies extraterritorially, is far more circumscribed, imposing liability only on those who intend to "induce the combination of . . . components," "supplie[d] . . . from the United States," "in a manner that would infringe [a] patent if such combination occurred within the United

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[5] Respondent's suggestion that Congress has, through legislative inaction, somehow ratified this interpretation of Section 271(f) (Opp. 22) is baseless. Often enough this Court has recognized that "congressional inaction lacks persuasive significance" and that "failed legislative proposals are a particularly dangerous ground on which to rest [statutory] interpretation." *United States v. Craft*, 535 U.S. 274, 287 (2002).

States." *Id.* § 271(f)(1). The shipment of a golden master disk from the United States cannot trigger liability under Section 271(f) unless that disk is among the "components" to be "combin[ed]" to form a patented invention. As the parties have stipulated, though, the golden master disk—the *only* "component" supplied by Microsoft from the United States (Pet. App. 47a)—"is never installed on a computer that is then sold." *Id.* 45a.

In seeking to hold Microsoft liable for inducing a combination of components, whether or not those components were actually "supplie[d] . . . from the United States," it is respondent rather than Microsoft that "violates the 'cardinal principle of statutory construction' that each word should be given meaning." Opp. 19 (quoting *Bennett v. Spear*, 520 U.S. 154, 173 (1997)).[6] Such a construction is particularly suspect where its effect, as here, is to broadly enhance U.S. law's extraterritorial reach. *See Empagran*, 542 U.S. at 174.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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[6] Contrary to respondent's contention (Opp. 18), Microsoft's common-sense construction of "supplie[d] . . . from the United States" has no effect whatsoever on Section 271(f)'s requirement that the "combination" of components "infringe the patent if such combination occurred within the United States." *Id.* That element simply limits the statute to those "combination[s]" that are actually the subject of a United States patent.